

**Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND)
Hearing on the Long Term Budgetary Outlook
with General Accounting Office Comptroller General David Walker
February 27, 2002**

Opening Statement:

I want to welcome Comptroller Walker to the panel. He has appeared here before. He is somebody who enjoys, I think on both sides of the aisle, strong credibility. I know I never fail to benefit from your thoughtful analysis, and we very much appreciate the thinking, the energy that you have put into helping us evaluate the long-term challenges that this country faces as we look to the future and understand that what we're facing now is unlike anything we've ever seen before.

I think one of the problems Washington is having with this new fiscal environment is that it is substantially different than anything we have ever faced before. Always before, the following generation has been bigger than the one that was retiring, and that's about to change in a dramatic way. And it is very hard to fully understand how dramatic these changes are and it's the reason why we wanted to have this hearing today.

When you met with us last year, you advised that no one, this is a quote, "No one should design tax or spend policy pegged to the precise numbers in any 10 year forecast." How I wish more persons would have listened to your wise counsel then. We could have avoided perhaps some of the very serious fiscal problems we now confront.

They say bad news comes in threes, and I'm afraid that may be the case when it comes to the budget outlook this year. First we learned the news from CBO in January that the surpluses we worked so hard to achieve have all but disappeared. Last year, CBO projected there would be some \$5.6 trillion in surpluses over the next 10 years. Twelve months later, CBO reported to us that the surplus for that same period had dropped by \$4 trillion. And that projection does not count the President's defense buildup, his request for homeland security, or economic stimulus package. It also presumes the tax cut sunsets in 2010 as required under current law.

The second piece of bad news came in the form of the 2003 budget submittal from the President, which reduced the \$1.6 trillion surplus even further. It took it down by another approximately trillion dollars.

And I suspect that when CBO does their reestimates of the President's budget, that they will tell us the circumstance is even worse than that. Under the plan proposed by the President, we return to non trust fund deficits for as far as the eye can see. These are CBO's numbers and it shows non trust fund deficits for the entire next decade.

And I don't expect your news to be particularly good either today. Although we certainly can't blame the messenger since you did your level best to warn us about over committing the surplus last year. I expect to hear from you that the tax cut, the recession, the attack of September 11 have taken their toll on the long-term budget outlook, as well as on the short-term

projections, making the task of addressing our long-term needs even more difficult.

The hard reality is that last year we were told the non trust fund surpluses over the next decade would be \$2.7 trillion. Now we are told the non trust funds can anticipate a \$2.2 trillion deficit. Where does that money come from? It comes out of the trust funds of Medicare and Social Security. There is no alternative, but for that to be the case.

The decisions that were made last year and the current state of the budget have enormous implications for our long-term fiscal future. Really, that's the message of this hearing.

In your testimony last year you advocated growing the economy through increased national savings and principally through running surpluses to pay down debt. Reducing deficits and running surpluses has propped up a steady decline in personal savings which stood in the year 2000 at seven-tenths of one percent. In the United States, net national savings has risen substantially over the past seven years from 3.3 percent of GDP to 5.5 percent in 1999. But the improvement in federal savings more than explains the entire improvement in national savings. In other words, it is because the federal government has been running surpluses that our rate of national savings has increased. Personal savings has been going down. National savings we got going up, and we got going up by the federal government running budget surpluses.

Why is national savings important? National savings is important because that is the pool of money that is available for investment, and it is investment which makes us able to grow the economy. It is the connections that are critically important.

You know, I think sometimes when those of us who talk for a long time about the need to be fiscally responsible and the need to run budget surpluses especially in light of the baby boomers about to retire, I think some people in the public say well that's a bunch of green eye shade guys who are worried about accounting and worried about things adding up. Well that's important, but that's not the real importance of the exercise. The real importance of the exercise is having economic growth in the future so that America can meet its long-term obligations.

Some say you don't have to worry about it -- Social Security money is being credited to those trust funds. Well that's true. The money is credited to those trust funds when it comes in on the payroll taxes. And then we have a special certificate, a Treasury bond if you will, that is in the trust funds. But there is no money there. And those obligations are going to have to be redeemed in the future out of the revenue stream of the federal government. Of course, we know the federal government has never reneged on its obligations. But that doesn't reduce the hard reality that a future Congress and a future President are going to face very difficult choices.

I'm also very concerned in the dramatic decline in surplus resources leaves us little room to address the solvency of the Social Security trust funds. The President has put forth a budget that spends the Social Security surpluses in each year over the next decade. Further, his budget fails to account for the substantial implementation resources, some \$1 trillion according to Social Security actuaries, of his reform commission's Social Security private accounts plan. Each of the recommendations of his commission will cause considerably higher deficits than the President's budget currently acknowledges.

A number of weeks ago, I said this reminded me of Enron accounting. And I did it because on the way in that morning I heard a description of what got Enron in trouble. And what caused the problem for Enron is that it was hiding its debt, hiding its debt from its creditors, hiding its debt from its investors, and perhaps even hiding its debt from themselves. I am very concerned that the federal government is on that same path that we are understating our long-term obligations that we are in effect fooling the American people. I think even fooling ourselves.

This talk of surpluses is totally misleading. There are no surpluses. All the money is fully committed. In fact, it is over committed. And unless we face up to that reality, I am very concerned about what a future Congress and a future President will find. When they go to the cupboard, and the cupboard is bare. All of this is made more complicated by the tax cut passed last year, by economic recession and by the attack of September 11. But we are going to have to face up to this as a society. Putting our head in the sands, making believe that it's not there, making believe that these debts are not going to come true are not going to solve the problem.

I hope very much that today General Walker, you will give us the longer term outlook, where we're headed as a country, and help us understand how that fits in with our current budget deliberations.

Mid-Hearing Statement:

There is a train wreck coming and it's of enormous proportions, and we better wake up before it's too late.

You know I've likened this to Enron in the sense that Enron got in trouble because I believe they were hiding debt. They were running all these off balance sheet operations and fundamentally hiding debt from the investment community, hiding it from their creditors and perhaps even hiding it from themselves.

I worry very much that that's going on in this government – that we aren't facing up to the true debt that this country faces. And we keep talking about surpluses. In my judgement there are no surpluses. The surpluses are all gone. This money that is called surplus is committed, it is over committed. Yet we use the word surplus and it misleads people. People conclude from that that we have extra money here so we can spend more, we can have more tax cuts.

I think the reality of what you're telling us here today is the numbers don't add up. I use your words, the numbers don't add up, and we have to face up to it as a country, as a Congress and as a Budget Committee. We have an affirmative obligation to tell our colleagues where this is all headed, because I can tell you the appetite for more spending, for more tax cuts is totally out of the box. The gate is wide open. I tell you I have a parade of people coming to me and they want more tax cuts, more spending, and the whole thing doesn't add up now.

Closing Statement:

There is nothing more difficult than focusing on the future. All of the incentives in the political system are to focus on this year. That's where all of the incentive is. And it is extraordinarily difficult to lift up out of that and look out over the horizon and see where we're headed and understand it doesn't add up and that we've got a responsibility.

History is going to hold us to account. History is going to look back and say what were those people thinking of. Are they just fiddling while Rome burns there? Nobody cared what they were doing to future generations, as you said, not putting a face on the challenge of the future. Our kids are going to look back and really wonder what were you thinking of. You were there in a position of responsibility and you didn't alert people as to where we were headed? I hope that can't be said of this committee and I hope that can't be said of the Congress. Right now I'd hate to have to pass judgement.

You will be recorded favorably in history because you have repeatedly warned the Congress, warned the administration, warned the country of where this is all headed. For that I thank you and thank you very much.